Three Mysteries about Henry George

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Introduction

More than a century ago Henry George made a strong case for increased taxation of rent from land and natural resources, one still recognized as valid on efficiency and equity grounds. He went further, to advocate taxing *all* rent and relying on the tax as the *sole* source of government revenue — thus the "single tax" label for his proposals and followers. Such extreme enthusiasm on his part is now universally felt to have been naive, but the naivete should not destroy the more basic argument for taxing land and resource rent fairly heavily.

That basic argument, what I would call the *core* of George's proposals, was accepted to some degree or other by a surprising number of the professional economists who were his contemporaries. The number is surprising, at any rate, to one who has read some texts and general surveys of economic thought in which George is given rather short shrift.

Two of the three essays in this book concern the application of George's ideas on rent taxation to the developing countries today. Daniel Holland's essay is on taxation of rent land in Jamaica. Robert Conrad and Malcolm Gillis write about the appropriation, by taxation or other means, of rent from mineral resources in developing countries generally. In the third essay C. Lowell Harriss discusses the value of one of George's passions, free trade, for developing countries. In my own introductory essay, I discuss what I think are certain "mysteries" about Henry George, his thought, and the acceptance or lack of acceptance of his ideas. It suits my purpose to refer to some of the points of the other essays, but my own essay is independent of them.

Three Mysteries

There are three mysteries. Stated briefly, they are:

1. Why did so many professional economists of his day and after attack, denigrate, or ignore Henry George, even though he had enormous popular appeal and even though the core of his proposal was not very objectionable — indeed was accepted by many of them?

2. Why have practical politicians and the general public in the real world generally not accepted heavier taxation on urban and rural land (as opposed to energy and mineral resources)?

3. Why did neither George nor his critics much discuss the *interregional* redistribution of income which would have resulted from heavier taxes on land and resources and which has been an important issue in modern discussions of taxation of energy resources?

In the following sections I elaborate the mysteries and also attempt to sketch out solutions. Not all the solutions are equally satisfactory.

(From now on I will use the word "land" in the classical economists' and Henry George's sense, that is, including natural resources as well as the space and fertility of agricultural and urban land. I will use the term "natural resources" when I need to refer to mineral, energy, and timber resources, and the term "urban and rural land" when I need to refer to land other than such natural resources.)

I. *Henry George versus the Professional Economists*

The first mystery is suggested by Schumpeter's famous remark, which comes near the beginning of a general survey of "men and groups" in the United States, 1870 to 1914, a survey which concentrates on eminent American academic economists such as J. B. Clark and Taussig:

> But we cannot afford to pass by the economist whose individual success with the public was greater than that of all the others on our list, Henry George. . . . He was a self-taught economist, but he *was* an economist. In the course of his life, he acquired most of the knowledge and of the ability to handle an economic argument that he could have acquired by academic training as it then was. In this he differed to his advantage from most men who proffered panaceas. Barring his panacea (the Single Tax) and the phraseology connected with it, he was a very orthodox economist and extremely conservative as to methods. . . . Even the panacea . . . benefited by his competence as an economist. . . . Professional economists who focused attention on the single-tax proposal and condemned Henry George's teaching, root and branch, were hardly just to him.[1]

Mark Blaug describes the reaction of four generations of economists to *Progress and Poverty* as "persistent misunderstanding, misrepresentation, and downright evasion of issues by the leading members of the economics profession."[2] Conrad and Gillis, in their own paper following, cite recent unpublished work by Dwyer documenting a "silent conspiracy" among mainstream economists not to discuss George's ideas in academic journals of the day. Steven Cord surveys thoroughly the reaction of economists to George and documents case after case of confusion, insistence that George advocated things which even a cursory reading of the man shows otherwise, and other misrepresentations — "evasions and quibbles and hair-splitting," to use one of George's own phrases — an unusually mild one — about economists who opposed him.[3]

George's argument *was* an economic one. To many, its primary appeal was equity. But he also relied heavily on *efficiency* arguments based on a theory of factor supply and tax incidence which we recognize and still employ today: land is supplied perfectly inelastically because it is a creation of nature, so a tax on land's returns is not shifted forward or backward by resource reallocations which would cause distortions in the economy. That is the reason for Schumpeter's comment that "Even the panacea . . . benefited by his competence as an economist." George did not use our modern language in analyzing efficiency and excess burden, but it is clear he meant the same thing as we do. He put enormous weight on the efficiency of the tax. In *Progress and Poverty* he argues over and over that the taxes which governments actually imposed bore on labor and capital and thus restricted output, and that substituting land rent taxes for them would remove those restrictions without imposing new ones of any kind.[4]

George the economist also shows through in a little-known passage in *Progress and Poverty,* an exceedingly brief one, in which he actually proposed to leave landowners with a very small part of their rent, in order to preserve their incentives to manage land. The context is important. Immediately after stressing that it is not necessary to confiscate land, but only to confiscate the rent, he felt he must defend against the charge that landowners would abandon land, leaving the government to manage land. He says: "By leaving to landowners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent lands through State agency, and by making use of this existing machinery, we may, without jar or shock, assert the common right to land by taking rent for public uses." The remark is interesting both for the concession and for the economist's design principle.[5]

The idea of a heavy, even exclusive, tax on rent could be traced back to Quesnay's *impot unique.*[6] The idea was not new; that is not an explanation for the lack of acceptance. More to the point, however, is that before and during George's own time, many economists accepted the argument that land rent is a good candidate for taxation. Prest describes how a number of economic arguments can be found in Adam Smith, including the one that land rent taxes are neutral in allocation effects and the one that it is fair to tax surpluses that are not due to individual efforts.[7]

John Stuart Mill proposed that all future increments of land value be completely taxed away. The state should not tax away all existing land values because that would take property without compensation. But Barker reports that Helen Taylor told George that she believed that had Mill lived long enough, he would have been willing to accept George's more extreme proposal.[8]

Alfred Marshall is well known now as a critic of George and the proposal for 100% taxation of rent. Yet Marshall did once express approval of a fairly radical plan. In discussing George he reviewed a number of alternative land reforms, including a plan to arrange

> that all land shall become the property of the State after a certain time — say 100 years hence. For new countries no compensation would be required; the State would simply sell the usufruct of the land for 100 years. At the end of that time the State might take it for public purposes, or might again sell the usufruct with any new conditions on its use that might then be desirable in the public interest. . . . it would probably enable them [new countries] to dispense with the tax-gatherer. There is much to be said, though not so much, for the adoption of the plan in an old country.[9]

As Stigler says, this is "something of a surprise,"[10] But Marshall goes on to say that compensation should be paid if the plan is adopted in an old country. Marshall believed there was not enough rent in national income to defray nearly all of government's needs. As for the working classes alone, he estimated that George's tax swap plan would gain them less than a penny on the shilling on their income.

> For the sake of this, Mr. George is willing to pour contempt on all the plans by which working men have striven to benefit themselves; he is willing arbitrarily to bring to ruin numberless poor widows and others who have invested their little all in land; he is willing to convulse society and run the dangers of civil war; and he is willing to run the risk of driving away capital and business ability. . . . whether or not there is any form of land nationalisation which, on the whole, would be a benefit, there is none that contains a magic and sudden remedy for poverty.[11]

Marshall always recognized some special place of land in government taxation, and consistently argued that a tax on rent, properly assessed, had efficiency advantages. But he was unwilling to make such a frontal attack on existing property relations as George advocated, and like many other economists he reacted sharply to what he thought was taking of valid property without compensation. (The tension between these two beliefs is well illustrated near the end of

Appendix G, Section 8, of his *Principles.*) He did not repeat even his 100-year proposal in later writings and perhaps thought better of it. It should be added that Marshall was also extremely critical of George for what he thought was George's sloppy and casual empiricism on the evolution of rent as a share in national income and on the inevitable increase in poverty during industrialization, and also for George's failure to understand that the land market could be competitive.[12]

In the United States, Francis A. Walker vigorously opposed George and never would give up the need for compensation, but by 1890 he conceded that with compensation the proposition was discussable and that economists at large had been moving toward the view that taxes on economic rent should be increased. However, he doubted small farmers and other small landowners would vote for it.[13]

Thus it appears that George's excessive enthusiasm in two respects — that all rent should be taxed and that governments should trust completely to a single tax on land — got in the way of his acceptance by professional economists. They also helped blind later generations to the possibilities of a modest increase in rent taxes as a substitute for other more objectionable taxes.

But there are other reasons why he failed to convince his academic counterparts. Two stand out, in my view. First, he *was* a *self-trained* economist. As Andelson and Collier have pointed out, he had the misfortune to write at a time when American economists were becoming self-consciously professional, in the sense of having formal academic training and rigorous standards of theoretical and empirical analysis.[14] As I show below, his proposals were combined with a very unorthodox theory of long-run economic development which probably did not seem plausible to economists and which was not empirically valid in any event. His popular success, based on an extreme view not supportable theoretically or empirically, was thus an affront — and a threat. It was understandably difficult for a professional economist, especially one not at the top of the profession, to support even a scaled-down version of George's proposals. The fact that the proposals were for a drastic change in property relations could only make it more difficult. One's inhibitions need not have been very conscious. We need not resort to an even less charitable explanation, as did George:

> For on such subjects [the right to land] the masses of men cannot safely trust authority. Given a wrong which affects the distribution of wealth and differentiates society into the rich and the poor, and the recognized organs of opinion and education, since they are dominated by the wealthy class, must necessarily repre-

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George was not tentative about this (or about much else). A sophisticated classical economist might say (and today we would certainly say) that changes in factor shares depend on the production function and the shifts in it. Some classical economists worked out (too restrictive) numerical examples to support their predictions on shares.[20] George asserted flatly, without even a numerical example, that the average product of labor would rise but the real wage would fall. And his reasoning was very different from that of the classical economists. He rejected explicitly and vociferously the Malthusian population theory as a cause of low wages. Nor were landowners the passive recipients of increasing *rent residual* caused by diminishing returns.

George assigned a much more active role to landowners.[21] They took positive action, exploiting their "monopoly" of land, to force down the real wage and appropriate a larger and larger share as rent. Aggressive and vigorous, not passive, they made *wages,* not rent, the residual. Wages were low because the landowners exploited their position; if they behaved otherwise, real wages would not fall and poverty and progress would not exist side by side in a growing economy. Indeed, if landowners behaved otherwise, population growth would actually raise real wages, by bringing economies of scale and external economies. (He argued that rapid population growth is sometimes the result, not the cause of low wages; he referred to many observations by others in Ireland, India, and China, where the exploitation of labor and the resulting insecurity of the workers led to rapid population growth.)

The paradox of progress side by side with poverty was what aroused George's interest in political economy in the first place and fired his moral indignation. Rent forced poverty on the masses and frustrated progress which might have resulted from population growth and capital accumulation and technical change. And, through the mechanism of poverty, it could be blamed for all the social evils of modern civilization.

There is not much discussion in *Progress and Poverty* of what landlords do with their incomes, but there is certainly no indication that they did anything which redeemed themselves or offset in any way the crushing burden they imposed on labor and capital by appropriating rent. In other words, the maldistribution of product had no offsetting effects on the rate of investment or technological change. Some of his critics felt otherwise, although they were somewhat nebulous on the benefits to society of concentrations of wealth.

George's overall macro framework must not have seemed convincing, at least in Great Britain and the United States. Rent did not seem to come, necessarily, at the expense of labor and capital, and it did not seem to be rising as a share of national product; landowners did not seem to be acting as a collective monopoly. And if landowners were not a monopoly — if indeed they could even be termed competitive in an emerging dominant consensus — then George's "whole-hog" attack on existing property relations lost credibility.

These problems with George's theory especially bothered Marshall, who had a deep knowledge of economic history and empirical data. But in their brief debate at Oxford Marshall could not persuade George that landowning was competitive.[22]

In summary, then, Henry George could not win over professional economists because he was not a member of the fraternity, he had a weak overall macro framework for his micro recommendations, he was too zealous and rude, and he would not concede compensation as a requirement for heavy taxation. Some of these might have been overcome, but the combination of all of them was too much.

II. *Henry George versus the Practical Politicians*

> . . . by and large we live in a country which has decisively and repeatedly over the years rejected land value taxation as the mode of finance of any level of government, including local governments. In fact, the country has decisively rejected even the idea of taxing land values equally with buildings. We have differentially heavy taxation of improvements in almost every jurisdiction in the United States, the opposite of what I think most [economists] would prescribe.[23]

The date of the remark is 1982; the speaker is an expert, but one need not be an expert to know that it's true. Why has the general public decisively rejected even the core of Henry George's idea, for urban and rural land?

Of the difficulties mentioned above, only excessive zeal and the attack on existing property relations would seem to discredit George in the eyes of the general public. So, on the face of it, a *less extreme* version of the tax should have been attractive. One did not need to be a neoclassical economist to appreciate something of the efficiency argument for substituting heavier land taxes for other taxes at the margin. Not being a neoclassical economist probably *helped* one appreciate the equity argument. The tax was morally defensible, for the landowners had done nothing to deserve the rent; they merely benefited from luck and the general progress of civilization which created rents, location rents in particular. Why not tax them somewhat more heavily, thus freeing labor and capital of the burdens of other taxes? One might argue for gradual implementation, as a form of compensation; one might settle for taxing only increases in land value, as Mill had done; one might use a high capital gains tax rate to accomplish that. But it has not happened.

I think this second mystery is harder to solve than the first. It is true that George was remarkably sketchy on how his proposal could be implemented within the government institutions of his day, but that should not have been an overwhelming barrier. There were reasons for practical politicians and their administrators to work at solving the problems, and they could work on them even without the benefit of professional economists' attention to the subject. George proposed an annual tax on the estimated pure rent on the land in what would be its most productive use. The tax would be based on the most productive use, whether or not that was its actual use; this was vital in order to prevent land from being held idle for speculation. But even a tax on actual current rent, or on market value, would have advantages even if it fell short of perfection.

True, there were practical difficulties in assessment, on which his critics have put much weight. He did not fully recognize the difficulties of assessment in the case of owner-operated farms and small urban businesses. No tax is free of such difficulties; the real question is whether separating capital and labor from land is any more difficult than the problems of separating capital and income in the income tax. But the mystery remains as to why many generations did not try very hard and are still not trying very hard.

Perhaps the best solution to this mystery, somewhat paradoxically, is to see that George *was* an economist, rather than that he was an unorthodox one. It is to see his agreement, not disagreement, with economists. The economic nature of his argument may have counted against it. After all, it was not the first or last time sound economic theory did not catch on. The public's occasional failure to accept the logic of free trade is another excellent example, a good one because George was himself an ardent free trader in a day when not everyone believed in it.

George's picture of landowners must not have seemed accurate, especially in the United States. Many owners were farmers or small businessmen, not large absentee owners. Furthermore, their land was bound inextricably with the sweat of their brow and meager tools financed out of savings. Separation of the returns to land from the returns to labor and capital may have seemed artificial to them. George could separate out the returns to land from those to capital and labor because he was an economist. Perhaps an experienced assessor could do the same. But trying to separate returns would be seen as dangerous if the assessor were not expert or his methods were not generally acceptable. The economist George could say that the same person combines different kinds of taxpayers — landowner, laborer, capitalist — but that's perhaps not how the man in the street or behind the plow saw it.

Again, the subtleties of economic analysis probably escaped a good part (not all) of the general public and raised one barrier to acceptance. To many, a tax is a tax, no matter that economists distinguish the incidence of one from the other, or a deficit is a deficit, no matter that economists distinguish an active one from a passive one, or a monopoly is a monopoly, no matter that economists distinguish a natural one from an unnatural one.

The public is often suspicious when politicians say they will increase one tax and decrease another. There is some lack of faith that both parts of the bargain will be delivered.

George's attack on established property must have got him into trouble with the general public. For one thing, he was often charged — incorrectly — with advocating nationalization. For another, part and parcel of the problem was that many landowners did not receive any or much rent at all on land *in its present use*. Capitalization insured that a recent purchaser had paid a market price which fully reflected expected rents and was just high enough that his rate of return was only a normal opportunity cost. The present landowner had *paid someone else* for the privilege of receiving rent. The truly fortunate landowner was not necessarily the present one; rather he might be the man who owned the land before the expected rents increased, and had then sold out. Taxing the present owner would not tax the true object of moral outrage. Moreover, present owners had made their purchases in good faith that property relations would remain stable. Millions of them were workers or widows and orphans of workers (recall Marshall's "numberless poor widows").

George had to deal with this objection all the time, and his attitude was very revealing. He faced up squarely to it and emphatically rejected any exception to the tax scheme to deal with such cases. He was uncompromising.[24] It was not unfair, he said, to wipe out these capitalized values; rents were unfair even if capitalized, and the income or social position of their owners was irrelevant. In *Progress and Poverty* he often made an analogy between land and slaves, and he asked whether the return from slaves was legitimate merely because a slaveowner had purchased a slave for a value reflecting the expected returns to the slave. The principle was so overriding in his mind that he refused even to analyze in any quantitative way the actual distribution effects. He did make the point that very poor people were unlikely to own land which earned much pure rent, and that they would be relieved of other taxes in any event. But without quantitative analysis this was perhaps not convincing. Had George done some empirical analysis, he might have figured out a practical way to compromise in order to garner wider support while still accomplishing most of his objectives.

Finally, we have Netzer's own explanation from the vantage point of the present day: some time since George's day, public opinion came to regard the taxation of wealth *in the form of unrealized capital gains* as unjust, and land value taxation is unjust because it is a form of taxation of unrealized gains. Convinced Georgists and economists have no problem with it, says Netzer, but they are peculiar. He does not offer convincing reasons for the shift in public opinion, but does say that by now the opposition is all the greater, because so much of the paper gains are in owner-occupied housing, which are seen as particularly unsuitable for unrealized wealth taxation.[25]

III. *Land Taxes and the Interregional Redistribution of Income*

The regional distribution of the value of "land," including natural resources, is very uneven in most countries and not identical with the distribution of other tax bases. Therefore, under Henry George's proposals, taxes would increase in some regions and decrease in others. There would be an immediate redistribution of real income among regions, followed by additional changes due to consumer demand, investment, and migration. As far as I can see, neither George nor his critics discussed this redistribution much. That is surprising.

The interregional conflict became more relevant in the United States and Canada after the rise of energy prices increased the regional concentration of energy rents. There would be a scarcity rent even if deposits were homogeneous, and variation in quality and extraction costs also create differential or Ricardian rents. The rents show up as royalties to private owners, supernormal profits of mining and transportation firms, and government taxes and royalties. The rights to rents are subjects of intense political controversy, and there is some of the same moral indignation that aroused Henry George. We have conflict within nations similar to the conflict between countries, which gives rise to the government policies on rent which Conrad and Gillis discuss in the context of developing countries.

We can't expect George to have anticipated all of this. However, even in his day the regional distribution of rents must have been uneven, because urban and rural land, timber, and minerals were all unevenly distributed across space. It is at least mildly surprising that he did not deal with this issue in *Progress and Poverty*. New York and Massachusetts and Pennsylvania, for example, had more valuable urban land relative to their populations, and other states had more valuable farmland. The tax base for a single tax would have been very unequally distributed. The regional effects would have depended on the size of Federal versus state and local taxes and on what the Federal government did with its taxes. George's obsession with a two-class model of society — landlords versus workers and capitalists — blinded him to the fact that land taxation would benefit workers in some regions more than in others.

George certainly included natural resources in "land." However, in *Progress and Poverty* there are only passing references to mines, and he recognizes no special problems. He thought mostly about fertility and location rents. But he *was* an economist and so would have known how to design an efficient tax on rent from other resources. Many governments in the United States are taxing energy rents but not in the way he would have wanted: taxes bear on capital and labor because they are levied on output or on real capital, and their inefficiency is compounded by their not being levied uniformly across the country. George would have detected these faults and let governments know about them.

But there are some complications George probably did not fully anticipate. *Ownership* of natural resources is determined by extensive interregional investment patterns. "Landowners" are not really the homogeneous group George was so fond of discussing as a class. The taxation of energy rents, in particular, creates interregional conflict of the kind which George did not anticipate.[26]

Unequal private ownership of land was the root of all evil in Henry George's eyes. He wanted *effective public ownership* of land, albeit through a 100% rent tax rather than nationalization. Yet in his system there would be serious regional inequalities in the "fiscal capacity" of state and local governments to raise revenue and finance public goods. Differences in fiscal capacity would result in differences in real income: a larger tax base would allow more public goods to be financed. Thus unequal fiscal capacity would have implied *unequal* effective public ownership of land.

The neglect of fiscal capacity is just one example of George's general neglect of empirical facts on who landowners were — their total income, their consumption and savings habits, where they lived.

A closer look at the contemporary energy situation reveals still more complications. The *owners* of land, although they must bear a well-designed pure tax, do not necessarily live in the same place as the resources are located. Some are persons who are not residents or are national or multinational corporations that are owned by persons who reside all over the nation (or the world). The smaller and less populated the jurisdiction, the less likely are the owners to be residents. The land may be in a sparsely populated region and owned by a corporation so widely held that residents are a tiny fraction of the owners.

These considerations arise simply from ownership patterns. State taxes on energy resources affect residents of other states even if there is no forward or backward shifting. In practice, taxes are levied in imperfect ways and there is some shifting. In that case, an analysis of the effects on the interregional distribution of income must be an exceedingly complicated general equilibrium analysis, requiring much more information than where the owners live — information on elasticities of demand and substitution, the sizes of taxing regions, the degree of coordination of taxation by regions taxing the same resource, etc.[27]

Governments themselves are significant owners of land. There may well be a constitutional prohibition against taxing another government's land. However, if the taxes are imperfectly designed and bear on labor and capital in land-using activities, then they will restrict those activities and reduce rents *received* by some governments. For example, if a state levies taxes on energy output, the demand for leases of Federal land will be reduced and there will be adverse effects on Federal taxpayers. The state's residents may benefit far more than they lose in their capacity as Federal taxpayers; in some other states, residents will suffer a net loss.

The uneven distribution of rent can also lead to migration of labor and capital. If a state can tax rent, it need not tax labor and capital and consumers as much. People and capital will move in, increasing the rents to non-land resource owners who resided in the region before the market adjusted their resources' prices upward. Owners of durable assets (such as housing) and workers with scarce skills will earn quasi-rents, and some of the quasi-rents will be very large and persist for very long periods of time.[28]

There is evidence that fiscal capacity is an important factor in stimulating migration in Canada. The Economic Council of Canada has concluded that fiscal benefits from natural resource rents has encouraged migration from the rest of Canada to Alberta, Saskatchewan, and British Columbia. The prospect of rents seems to be especially important for low and middle-income persons (but not for the very poor, who pay so little income tax that they do not benefit from an unusually low rate and who are also deterred by high housing prices in western Canada).[29]

Is the long-run redistribution of population and capital just? It depends on whether one accepts the premise that state governments "own" resources. If one does, one can accept the results of the political process in the states that tax natural wealth more heavily than other kinds of wealth. If all states (and the localities which are their political creatures) levy taxes efficiently, the situation is Pareto Optimal, even if the distribution of real income across regions is much different from what it would be if states did not own resources.

If, on the other hand, one believes that the nation owns the resources, then it is not just that some regions can enhance themselves at the expense of others.

What would George think of this? It would be interesting to know. I will not speculate — it is an interesting mystery for further research, a fourth mystery if you will. But the other mystery is: Why did he not raise and deal with the issue even for urban and rural land? And why didn't his critics raise the issue? I don't have a very satisfying answer.

Perhaps it simply was not a very important empirical issue. The geographical dispersion of ownership might not have been great. We need new empirical research into historical data to confirm this. To what extent were owners of New York and San Francisco land residents of the cities or their states? To what extent were farmland owners residents of the same state or locality? Certainly mineral and timber lands were likely to be owned by corporations whose stockholders were residents of other regions. Railroad land was probably the most important case of all, for certainly many of its owners were stockholders in other regions. It was a matter of passionate discussion for various reasons, so more careful investigation may uncover instances where George or his contemporaries discussed the regional patterns of ownership.

Even in the United States, where regional economic conflicts had been and remained intense in the late 19th century, it is possible that the class antagonisms George perceived were much greater, so that he saw the interregional redistribution as a minor aspect of the larger redistribution he desired. And his critics may have felt that they had enough to talk about in any event. Whatever the answer, it would be an interesting empirical investigation to determine if they were right in neglecting the issue.

Conclusion

Some Socialistic writers have been men of great scientific capacity, who have understood the economic doctrines which they have attacked. Mr. George is not one of these. He is by nature a poet, not a scientific thinker. The real value of his work does not lie in his treatment of questions that require hard study and clear

> thought, but in the freshness and earnestness of his views of life.[30]

The comment suggests some conclusions. The first sentence is an example of the confusion, intentional or not, which surrounded Henry George. Whether or not he was socialistic, he was certainly not a socialist. I am tempted to say that one conclusion is that honesty is not the best policy. Or perhaps that earnestness is not the best policy. Once fired by moral indignation, Henry George was too honest to his ideals to compromise. Morality, but not practical politics, demanded taxation without compensation. That made it hard for the world — professional economists, practical politicians, and general public alike — to accept him.[31] Another conclusion, however, is that he was a poet and thus could not be a good empirical economist or practical politician. A recurrent thread in an honest assessment of him must be that he did not work hard enough to find out who landowners really were. He overestimated the public's anger at them, underestimated the degree to which the public *were* landowners, and missed important clues from the nature of ownership.

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Notes

[1] Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 864-5. Emphasis is Schumpeter's.

[2] Mark Blaug, *Economic Theory in Retrospect*, second edition (London: Heinemann, 1968), p. 91.

[3] Steven B. Cord, *Henry George, Dreamer or Realist?* (Philadelphia: University of Pennsylvania Press, 1965). The phrase is quoted on p. 30, and is from George's remarks at the 1890 convention of the American Social Science Association in Saratoga, which was entirely devoted to a debate on the single tax.

[4] Henry George's own argument is in *Progress and Poverty*, Book VIII, Ch. 3. Modern economists recognize a complication in that a general equilibrium analysis shows that under certain conditions the tax can be shifted partially on to capital. Conrad and Gillis refer to this possibility. The conditions, developed by Feldstein, are that savings, and thus the real capital stock, would increase, thus decreasing the marginal product of capital and its rate of return below what it would otherwise be. The increase of capital would also increase the demand for land, thus offsetting at least

in part the decrease in land's after-tax rate of return. However, as Feldstein notes, there still is no excess burden as long as there are no taxes on real capital. The reasons are, first, land cannot be decreased in aggregate, and will not be decreased in any single use, as long as the rent tax is uniform for all uses, and, second, the net return on physical capital is equal to the gross return. Of course, if the rent tax is varied in a situation in which there are also taxes on capital, then there can be welfare losses or gains. But those should be properly said to be due to the tax on capital, a factor in variable supply. Martin Feldstein, "The Surprising Incidence of a Tax on Pure Rent: A New Answer to an Old Question," *Journal of Political Economy*, Vol. 85, No. 2, 1977, pp. 349-60.

Calvo, Kotlikoff, and Rodriguez note that some of the results in Feldstein's article depend on a particular life-cycle model, and that if one introduces a bequest motive, the tax is not shifted (Guillermo Calvo, Laurence Kotlikoff, and Carlos Rodriguez, "The Incidence of a Tax on Pure Rent: A New (?) Reason for an Old Answer," *Journal of Political Economy*, Vol. 87, No. 4, 1979, 869-74).

As Feldstein also points out, a tax on rent may affect the supply of labor and capital, because of income effects, in a way which drives down the real wage or the rate of return on capital. If so, then the tax on land rent is at least partly shifted. However, the rent tax *per se* does not prevent the economy from achieving Pareto Optimality given the new distribution of income. Feldstein, *op. cit.*

It is also true that the quality of soil is partly determined by economic incentives, and the supply of a given quality is not perfectly inelastic. However, one can regard maintenance of or changes in fertility as the result of capital investment, not changes in the quantity of land. (Ricardo defined rent as the return to the "original and indestructibe powers of the soil," for example.)

[5] *Progress and Poverty*, Book VIII, ch. 2. I am indebted to Robert Hebert's article for this reference. Robert Hebert, "Marshall: A Professional Economist Guards the Purity of His Discipline," in Robert Andelson, ed., *Critics of Henry George* (Rutherford, N.J., Fairleigh Dickinson University Press, 1979), p. 63. Harry Gunnison Brown discussed the possibility of this kind of fee for managing land and discovering and calling the community's attention to the value of new sites. However, he said that even if society felt the need, it did not have to allow it *forever*. A limited period of rents, as in a patent, would be sufficient. Harry Gunnison Brown, "The Ethics of Land Value Taxation," *Journal of Political Economy*, Vol. 25, No. 5, 1917, pp. 464-92. Brown made a similar argument to limit the period of returns to a prospector. Brown, "The Prospector and Economic Rent," *American Journal of Economics and Sociology*, Vol. 12, No. 3, 1953, pp. 301-4.

[6] Schumpeter's discussion of Quesnay, far more extensive than of George, suggests some interesting parallels and differences between the two. Like George, Quesnay advocated both a single tax and free trade (although the former was modified by his physiocratic followers in a way which George's single tax obsession was not). Quesnay had dedicated disciples, and his tax proposals were accepted in only a limited circle, but in this case his success was only a *succès de salon* (in the polite society of the Court), so there was a physiocratic "fashion" but no "movement." Schumpeter's comments on Quesnay include one which he might have made about George: While a man's particular practical conclusion proves nothing for or against his economic insight, 'whole-hog' positions usually point to some defect in insight rather than to the contrary.

Why does Quesnay have a more honored place in the history of economic thought? Schumpeter argues his *tableau*, by its simplification, opened up possibilities for numerical theory (and Quesnay did what Schumpeter called "genuine econometric work" in the sense that he tried to estimate real economic magnitudes), and because it was the first method ever devised in order to convey an explicit conception of the nature of economic equilibrium. Schumpeter, *op. cit.*, pp. 223-40.

[7] See the discussion in Alan Prest, *The Taxation of Urban Land* (Manchester, U. K., Manchester University Press, 1981), ch. II, for a discussion of support by Adam Smith, James Mill, John Stuart Mill, Alfred Marshall, A. C. Pigou, and E. R. A.

Seligman. The following section relies on Prest as well as on the other sources cited.
[8] Charles A. Barker, *Henry George* (New York: Oxford University Press, 1955), p. 358.
[9] Alfred Marshall, "Three Lectures on Progress and Poverty," *Journal of Law and Economics*, Vol. XII, No. 1, 1969, p. 205.
[10] George Stigler, "Alfred Marshall's Lectures on Progress and Poverty," *Journal of Law and Economics*, Vol. XII, No. 1, 1969, p. 182.
[11] Marshall, *op. cit.*, p. 208.
[12] *Ibid.*, *passim.* See also Prest, *op. cit.*, pp. 14-16, and Hebert, *op. cit.* Hebert quotes Marshall's letter to the *Times* supporting Lloyd George's budget of 1909, which proposed taxing land values. Prest discusses Seligman, who opposed the single tax but cautiously approved replacing the property tax by the land tax. In commenting on Lloyd George's budget, Seligman called the forces behind it ones which were "gradually leavening the life of all modern civilised societies . . . . The new English laws are, at bottom, the fiscal expression of a great social development." E. R. A. Seligman, *Essays in Taxation*, tenth edition (New York, Macmillan, 1925), p. 496, quoted in Prest, *op. cit.*, pp. 19-20. Seligman, of course, was wrong in predicting that land value taxation would become more prominent; see Section II below.
[13] Cord, *op. cit.*, pp. 44-5.
[14] Robert Andelson, "Introduction," in Robert Andelson, ed., *op. cit.*, p. 15; Charles Collier, "Clark and Patten: Exemplars of the New American Professionalism," in *ibid.*, p. 261.
[15] The first paragraph is from *A Perplexed Philosopher* (New York: Robert Schalkenbach Foundation, 1965), p. 272. The second is from another remark by George at the Saratoga conference of the American Social Science Association, 1890, and is quoted by Cord at page 30.
[16] Schumpeter, *op. cit.*, p. 865.
[17] Blaug, *op. cit.*, p. 89.
[18] Collier, in Andelson, ed., *op. cit.*, pp. 265, 272.
[19] Charles Collier, "Henry George's System of Political Economy," *History of Political Economy*, Vol. 11, No. 1, 1979, p. 90.
[20] Blaug, *op. cit.*, ch. 4.
[21] Ernest Teilhac, *Pioneers of American Economic Thought in the Nineteenth Century*, translated by E. A. J. Johnson (New York: The Macmillan Company, 1936).
[22] Marshall, *op. cit.*, pp. 217-25.
[23] Dick Netzer, "What's Wrong with Land Value Taxation," in The Henry George Research Program, Pace University, *Henry George: His Continuing Relevance* (New York, Pace University, 1982), p. 26.
[24] Henry George, *Progress and Poverty*, Book VIII, ch. 3. See also Harry Gunnison Brown, "The Ethics of Land Value Taxation," Brown makes the point that if one carries the argument of the critics to its logical extreme, one would avoid ever correcting economic evils such as the protective tariff or monopoly. Instead of saying that a rent tax was confiscation of property, he said, one should say that it was simply the refusal of the rest of society to permit its earnings to be confiscated by landowners.

In the same essay, by the way, Brown also deals with two other criticisms of the rent tax, that it was not levied according to ability to pay, and that it was wrong to single out land rents and leave other rents less heavily taxed. On the former, he said that social welfare might be furthered by preventing exploitation rather than "mathematical precision" in apportioning taxes to total income. On the latter, he said that a tax on land rent was much less likely to have incentive effects than a tax on the "exercise of genius" and that "the claim that many and complicated reforms are needed, as a reason for delaying one" suited only the views of reactionaries.
[25] Netzer, *op. cit.*
[26] Roger Bolton, "Regional Policy in the United States, *The Canadian Journal of Regional Science*, Vol. V, No. 2, 1982, pp. 237-50.
[27] See the following references for a sample of the discussion:
Malcolm Gillis, "Severance Taxes on Energy Resources in the United States: A Tale

of Two Minerals," *Growth and Change*, Vol. 10, 1979, pp. 55-7.

William E. Morgan and John H. Mutti, "Shifting, Incidence, and Inter-State Exportation of Production Taxes on Energy Resources," *Land Economics*, Vol. 57, No. 3, 1981, pp. 422-35.

John H. Mutti and William E. Morgan, "Rising Energy Prices and Quasi Rents" (Laramie, Wyoming: Institute for Policy Research, University of Wyoming, n.d. [1981?]).

Charles E. McLure, Jr. and Peter Mieszkowski, *Fiscal Federalism and the Taxation of Natural Resources* (Lexington, Massachusetts: Lexington Books, 1983).

Charles E. McLure, Jr., "Fiscal Federalism and the Taxation of Natural Resources," Working Papers in Economics, Hoover Institution, Stanford University, Stanford, California, 1981.

[28] Brown did make a brief reference to a purely local application of a rent tax that might induce inmigration, but he did not expand on the idea. Brown, "The Ethics of Land Value Taxation," p. 488.

[29] Economic Council of Canada, *Financing Confederation* (Ottawa: Minister of Supply and Services, 1982).

[30] Marshall, *op. cit.*, p. 186.

[31] After writing this, I discovered that Kenneth Boulding also concluded that George's honesty had made it difficult for him to make his arguments in a way that swayed a majority of voters. Kenneth Boulding, "A Second Look at *Progress and Poverty*," in Richard Lindholm and Arthur Lynn, eds., *Land Value Taxation: The Progress and Poverty Centenary* (Madison, Wisconsin: University of Wisconsin Press, 1982), p. 11.